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May 28, 1975

MONTANA'S CRITIQUE OF DES 75-2
DRAFT ENVIRONMENTAL IMPACT STATEMENT
ENERGY INDEPENDENCE ACT OF 1975 AND RELATED TAX PROPOSALS

Introduction

Pursuant to the requested review of DES 75-2, the Energy Independence Act of 1975 and Related Tax Proposals (EIA), member agencies of the Montana Energy Advisory Council (MEAC) were asked to furnish comments on the Draft Environmental Impact Statement (DEIS). The text below is a summary of those comments with emphasis upon Chapters 1, 2 and 5 through 10.

General Comments

(1) DES 75-2 is committed to the principal objective of reducing oil imports by two million barrels per day by the end of 1977 and three to five million barrels per day by 1985. There are no other stated energy use goals. The rationale behind this principal objective is never explored further than vague references to "national security" and balance of payment problems. There is no substantive discussion of many of the costs of accelerated development

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of our finite energy supplies; the burden on the already sorely pressed capital markets; the shortages of skilled labor; the severe socio-economic impacts on local communities; the degradation of previously clean air; the trade-off of future domestic energy supplies for immediate consumption; and the pending constraints in material availability. The complete lack of a meaningful comparison and evaluation of these costs to the benefits of the desired reduction in oil imports by 1985 renders questionable the foundation upon which the entire proposal is predicated.

(2) The beyond-1985 component of this federal initiative is primarily dependent upon as yet undemonstrated technological breakthroughs in conversion of coal to synthetic fuels and the development of safe nuclear power. No discussion is put forth of the relationship between our increasing future dependence on this "technological fix" and our accelerated development of energy supplies in the near future. The alternative of careful husbanding of these finite energy sources in order to maximize our future options is never evaluated. A strong case can be made that our long-term viability as a nation is heavily dependent upon our ability to be adaptive and flexible regarding energy, since we are apt to be presented with additional "crises" as time goes on. No evidence is presented that the question of long-term versus short-term energy resource supply capability has been fully explored. This is sorely needed, particularly in view of the recent National Academy of Science and United States Geological Survey downward revisions of oil and natural gas reserve estimates.

(3) Energy conservation is obviously considered a goal secondary to expediting the development of our energy supplies. It is viewed only in the

context of assisting us to achieve the objective of reduced oil imports rather than in its more fundamental role as the prime component of a long-term policy, recognizing the finite nature of the world's energy resources. The essential fact that our energy crisis, and economic difficulties, stem both from our societal acceptance of the "growth is good" philosophy and from a perception of energy as something which is produced on demand, appears to have escaped the authors of this DEIS. No energy policy will truly serve the interests of present and future generations until the development of a "conservation ethic", both in policy and practice, is given the highest priority by federal decision-makers.

The only real conservation measure proposed in the document is to raise energy prices, thereby reducing demand. Although the price elasticity of energy has been estimated at close to one, there is some question about the length of time it will take for the full effects of the higher prices to take hold. If energy elasticity can be compared with electricity elasticity, it would take up to ten years for the full price response to be felt.

A serious equity question also deserves mention. It is stated that the adverse effects of higher energy prices on low-income consumers will be mitigated, but it is never explicitly stated how this will be done. It is perhaps overlooked that our society's aggregate response to higher energy prices will be very dependent upon the relationship between the different sectors' energy use and ability to conserve, and their economic and financial status. Improvements in the latter will result in reduced emphasis on the former.

The authors of the DEIS also have failed to consider the effects of higher energy prices on the nation's inflation and employment outlook. Most

economists now believe that our current recession is mainly due to the recent high rates of inflation and its dampening influence on purchasing power throughout the economy. The potential tradeoff between unemployment and higher energy prices has not been adequately explored.

(4) The concept of "net energy" is conspicuous by its absence. The tremendous energy investment that must be put forth to bring the required energy supplies on line has not been measured, although some of the techniques for doing this are being developed and have been put to use. The basic fact that all energy development requires energy consumption prior to the supply stage must be considered in any energy supply scenarios simply because we need to measure these short-term incremental energy demands in order to more accurately forecast when the energy supply developed will actually exceed the energy invested in its development. We may discover that the lead times until net energy supplies come on line may be significantly longer in an accelerated development program than in a more moderately paced supply scenario.

(5) The environmental impacts of the proposed program are inadequately evaluated. The authors limited themselves to discussing gross and aggregate impacts and implied that the reader would be responsible for assessing the relationship between these impacts and their social and economic costs. The actual severity of these impacts is minimized throughout the DEIS by referring to national and regional pollution loadings which are essentially useless for interpreting specific effects. The affected human and bio-communities will not be responding to aggregate impacts but to site-specific impacts.

The Montana Energy Advisory Council suggests that the authors of the DEIS have not adequately complied with the intent of the National Environmental

Protection Act, due to the shortcoming noted above and to the authors' admission that related environmental impacts cannot be fully determined.

(6) Full exploration of alternatives to the proposed program is not evident, particularly because the authors have in no instance indicated why they have chosen the "EIA" alternative over the "AC" alternative. This is confusing, since the text states that the "AC" alternative will result in less oil imports, practically identical oil and coal production by 1985, and reduced environmental impacts. What, then, is the overriding rationale to reject the "AC" alternative?

(7) Throughout the DEIS there are unsupported assumptions that environmental controls are essentially counterproductive to the intent of the program. Explicit documentation of the reasons behind these assumptions is lacking. There also is an unstated assumption that $11 per barrel oil prices will be maintained, since the logic behind the separate proposals is based on this international market price. This is contrary to statements of administration spokesmen; namely, that this high a price represents an artificial aberration from real market forces and cannot withstand the test of time. Which is true?

(8) The EIS clearly indicates the intention of the Ford Administration and the FEA to abrogate state policies and rights in the realm of energy development. The Energy Independence Act (EIA) will permit the federal government to approve or disapprove state utility siting procedures, air quality standards, public service regulation commission, utility rate regulations and so on. While the EIS indicates that the states will be given some voice in these matters, it is extremely difficult to escape the conclusion that the federal government intends to have the final say. Until such time as it has been clearly demonstrated that the nation faces a crisis unparalleled in its history, and that the EIA proposal represents the most reasonable and equitable solution of that crisis, such abrogation must be opposed and resisted in the most vigorous manner.

Specific Comments

Page 1-9: Is it physically or economically realistic to postulate that the United States can become an energy exporter sometime beyond 1985? Is this a valid social objective? Much discussion of the costs and benefits of this goal and related time frame is required.

Page 1-12: It would seem prudent to assess the dollar costs of developing the Naval Petroleum Reserves. Development of these reserves do not indicate a significant cost saving over imported oil; they should be kept in reserve as a last resort for energy supplies.

Page 1-16: The cost of federal stimulation of investment in energy supply development should be made more explicit, along with an explanation of the rationale behind the need for federal intervention. This is an important part of long-term policy and, as such, deserves much more review.

Page 2-3: The long-term success of the FEA program is dependent upon as yet unproved synthetic fuels from coal. The alternative of greater emphasis upon conservation is not discussed in the context of a long-range policy. This is a serious omission.

Page 2-8: Table 2-3 indicates that 75 percent of the reduced demand under the EIA scenario results from increased auto and other transportation efficiency and reduced industrial demand for natural gas. These assumptions can be considered exceedingly hopeful because of the "voluntary" nature of the agreement between the Department of Transportation and the auto industry and because the projected industrial savings are totally dependent upon continued $11 per barrel oil prices.

Should the price of oil fall, much of the conversion might be no longer economical.

Page 2-11: The relationship between the phrase "price induced reduction in natural gas production" and the authors' expressed intent of increasing natural gas production through price deregulation is unclear.

Pages 2-23 to 2-25: MEAC assumes that the columns have been mistitled and that the accelerated scenarios should be the last two and the reduced scenarios the middle two.

Moreover, various representatives of the federal government have steadfastly insisted that no production quotas exist or are to be established for coal development in the Northern Great Plains states. These tables may not present quotas, but they strongly suggest a quota-type system. Before the EIA, or other such proposals are acted upon, both Congress and the public need more specific information of what, exactly, is projected.

Page 2-28: In mentioning the Low Nuclear Scenario, the authors of the DEIS state that resource constraints may prevent an increase in coal conversion of the size needed to offset decreased nuclear production. Their statement, although brief, makes sense. However, the EIS does not present similar statements about the feasibility of other EIA production proposals that would seem equally liable to resource constraints.

Page 2-50: The aggregate environmental impact assessment is misleading in that specific impacts, such as will occur in Eastern Montana, will be far more important to Montanans than a national pollution loading analysis would suggest. A more explicit discussion of how one compares environmental impacts of oil and gas production and consumption with coal mining and delayed air quality programs is needed. The assessment of the impacts of the use of intermittent control systems in lieu of continuous control systems has been dangerously oversimplified.

The fact is that substantial increases in air pollution loadings will occur.

Page 2-52: The claim that water pollution under all scenarios will be significantly less in 1985 than in 1972, except for thermal discharges, is never substantiated and cannot be accepted at face value. This line of reasoning also assumes that Public Law 92-500 will effectively control water pollution from solids and organics but not thermal discharges. Is this valid?

Page 2-53: MEAC rejects the logic that polluting a previously clean area of the country is philosophically justified since dirty areas will not then become more polluted. Apparently, the authors place no value on pristine air and feel that making the country uniformly polluted is an acceptable environmental sacrifice. We strongly disagree.

Pages 2-63, 2-64: The very real possibility that these unproven technologies may never fully come on line is avoided in the entire discussion. An excess of faith in the ability of technology and the economic system to absorb and fulfill these prophecies is everywhere evident. This part of the DEIS therefore may be unrealistic and fanciful.

The essence of the broad philosophical approach of the DEIS is again made clear in the phrase, "material recycling may increase to some extent". This is not even mentioned other than in the context that it may occur sometime beyond 1985. The predicted continuing momentum for environmental protection will not occur if the intermittent control system is allowed to come into effect.

Pages 2-68 to 2-74: There is an apparent bland acceptance of a "significant" problem of water availability in arid and semi-arid regions and "adverse" socio-economic impacts from energy development in previously rural areas. No mention is made of how these difficulties have been incorporated into the main conclusions of the DEIS if, indeed, they have been.

The implication is also made that existing or new federal programs are or will be designed to mitigate the socio-economic problems. After much research, we are aware of no existing programs available to rural, development-impacted communities and, in view of the administration's dim view of new spending programs, we are very skeptical of the possibility of any new programs being funded.

Page 2-79: It is stated that under the BAU scenario, about eight billion less barrels of domestic oil would be consumed by 1985 than under the EIA scenario. The authors of the DEIS have been irresponsible in not placing any emphasis upon conservation of domestic oil supplies in order that easily accessible supplies could be available for bona fide emergencies.

Proven oil reserves are 34 billion barrels, not 48 billion barrels, according to April 1, 1975 American Petroleum Institute figures.

Page 2-80: Project Independence states that the demonstrated coal reserve base is 434 billion tons, only a fraction of the 3.3 trillion tons of "recoverable" reserves.

Page 2-80, 81: Although reservations are expressed over resource constraints, there is no indication that these constraints have been considered serious enough to warrant mention elsewhere in the DEIS. Nor does the existence of these contraints appear to have influenced the thrust of the proposed program. The apparent consideration of these constraints as inconsequential must be considered a serious error in the document.

Page 2-82: It is assumed by the authors that the program "recognizes the Nation's energy needs". We do not agree and fail to find any real effort made to differentiate between energy "demands" and valid national energy "needs".

Later in the text the statement also is made that the detrimental impacts of the program will be limited to "local short-term effects" and that these effects

will be "generally correctible". No evidence is presented to support these statements and we do not feel that these assumptions are valid in the absence of supporting specifics.

Page 2-83: The equating of "national productivity" with "human welfare" is subject to a considerable amount of debate. The relationship is far more complex than that indicated.

Page 5-2: Is it plausible to base this program on the assumption that the rate of natural gas reserve additions between 1973 and 1985 will be two and one-half times greater than the rate at which reserves were added between 1968 and 1972? Recent statements about natural gas supplies indicate that known reserves may be far less than previously suspected.

Page 6-4: The authors state that existing data on MFBI's is not readily available and that the potential for converting these plants from oil to gas is difficult to estimate. How, then, was the data in the rest of this chapter developed?

Page 6-30: Recent research contradicts the statement that low sulfur coal will command a $10 per ton premium over high sulfur coal. The Northern Great Plains Resource Program has estimated stack gas scrubbing costs at $3 per ton, far less than the authors' estimate of $10 to $15 per ton FGD costs. In addition, the Project Independence Report has estimated 1985 coal production costs (including profit) at $3.60 per ton for the Northern Great Plains, $5.78 per ton for the Midwest, and $8.19 per ton for Appalachian coals.

Page 6-31 to 6-36: Tables 6-19 through 6-23 utilize the coal price variable but do not consider the oil price variable. Earlier statements indicated that the price of oil has very real ramifications for the success of this aspect

Page 7-39: The authors assume that shifting the financial burden for continuous control systems into the future is preferable to requiring that they be installed today. We are unaware of any evidence that the capital "crunch" will be less severe after 1980 than it is today.

Page 8-1: The statement that state authorities will still be allowed to maintain more stringent air quality standards is directly contrary to statements in the previous chapter in which the authors expressed their desire to allow FEA the right to override state standards which were considered too stringent. Clarification of this apparent contradiction is required.

Page 8-2: There is a total lack of regard for the wishes of those states which may desire no significant deterioration of air quality in certain areas. Reference is made only to primary and secondary standards. We feel strongly that the states should retain their prerogative of allowing no deterioration of air quality.

Page 8-5: What does a "more balanced siting of energy facilities" mean? The desired impact of providing energy to the consumer "at less cost" also is in direct contradiction to earlier arguments for higher prices to encourage conservation. Which is the overriding consideration here?

Page 8-9: The statement that the proposed amendment will lead to "improved overall environmental protection" is nowhere supported by fact or coherent analysis and until such support is demonstrated, must be rejected.

Page 9-2: It is manifestly unclear why utility cancellations and postponements will lead to "increased use of oil-fired generating capacity". We hope that the unstated assumption is not that once new coal-fired plants are built, oil-fired plants can be put into mothballs.

The authors also have declared it poor regulatory practice that the state commissions have come under pressure from "consumers". Who, then, would the FEA desire that state commissions represent -- only the utilities?

Page 9-3: All of the proposed minimum standards, save the third, are designed to give greater power and influence to utilities, in order to expedite rate increase requests and pass through increased fuel costs. One aspect of the problem, that there is no economic incentive for utilities to buy the least expensive fuel, will only be exacerbated by such suggestions.

Page 9-5: No explanation of the reasoning behind the implication that giving more influence to the federal government and utilities will result in fewer conversion facilities in the future is visible. The implication must be viewed as an absurd conclusion, based upon the Montana experience of utility company plans for new power plants for which need has not been demonstrated.

Page 9-7: The authors have completely overlooked the growing body of technical and economic expertise devoted to the utility rate debate. The fact is that rate structure design has been a major factor leading to the economic problems utilities face today. Rate structure redesign and conservation should be the two highest priorities on the list, rather than the last two. This omission is indicative of the entire thrust of this chapter, and brings the remaining conclusions into question.

Page 10-3: "[P]rocedures for state preparation . . . of plans . . . which reflect projected needs." Who defines the needs and what is the actual relationship between state, regional and national needs? Which is to take priority when they will all likely differ?

Regarding "coordinated site selection . . . processes which appropriately consider . . . needs . . .", what is the definition of "appropriate".

Perhaps most importantly, what are the criteria by which the FEA is to judge the adequacy of state management programs? What will constitute an approved program? The absence of a discussion of these critical issues is inexcusable and quite suspect.

Page 10-5: Is the state authority or the public utility to establish the need for a new facility? What is the "service area"? Clearly, this definition is critical to the determination of need for a new facility.

Page 10-6: The authors have failed to include the following criteria in their checklist for evaluating candidate regions and potential sites: socio-economic impacts, net energy delivery and costs to the consumer. We recommend that the authors review the Montana Department of Natural Resources' Environmental Impact Statement on Colstrip Units III and IV.

Page 10-8: Since the authors apparently believe that previous "public participation" has only served to hinder the siting process, we are very hesitant to accept the phrase "adequate participation on the part of the public" at face value. Much more thorough delineation of the role of public participation in the facility approval process is necessary.

Page 10-18: The statements at the top of the page cannot be accepted without any substantive clarification.

Page 10-20: The essence of the major issues being addressed in Chapter 10 are mentioned in the context of regulatory reform. The specifics of the working relationship between each level of government are nowhere resolved and, thus, bring into question the great number of assumptions underlying the remainder of the state program objectives.

Conclusion

On the basis of its review of DEIS 75-2, the Energy Independence Act of 1975 and Related Tax Proposals, the State of Montana strongly urges that continued pursuit of the objectives outlined in the DEIS be terminated. No further pursuit of those objectives can be justified until such time as the costs, benefits and feasibility of the proposed program, and the assumptions underlying it, have been thoroughly elucidated and analyzed. Such elucidation and analysis are notable by their absence in the current proposal. We ask that the Ford Administration and the Congress combine to develop a truly rational, comprehensive, national energy policy that is based upon careful and thorough analysis of the alternative energy futures available to the nation. We ask that this policy be focussed upon a long-range perspective, not just upon short-term expediency. Only after a rational energy policy has been developed can we hope to design and implement appropriate programs to bring the nation out of its energy crisis.